

Message Text

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INFO AMEMBASSY LONDON

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AMCONSUL HONG KONG

C O N F I D E N T I A L JAKARTA 2282

STADIS //////////////////////////////////////

LIMDIS

E.O. 11652: GDS

TAGS ENRG EFIN ID

SUBJ: PERTAMINA FINANCES

1. SUMMARY: INDONESIAN NATIONAL OIL COMPANY,
PERTAMINA, FACING SHORT TERM FINANCIAL PROBLEMS.
DISUCSSIONS ACTIVELY UNDER WAY IN JAKARTA BETWEEN
PERTAMINA, GOVERNMENT, AND BANKERS ON PROBLEM.
SOLUTION WILL PROBABLY INVOLVE SLOW DOWN OF MAJOR
KRAKATAU STEEL PROJECT AND DELAY OF POSTPONEMENT OF
OTHERS, AS WELL AS CLOSER REGULATION PERTAMINA ACCOUNTS.
END SUMMARY.

2. AMINDST RUMORS IN JAKARTA AND IN FINANCIAL WORLD
OUTSIDE OF PERTAMINA FINANCIAL DIFFICULTIES, PERTAMINA
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OFFICIALS MEETINGS WITH GOI, PRIVATE BANKERS, AND PRIVATE

CONSULTANTS. FACTS ARE THAT PERTAMINA IS NOW HAVING DIFFICULTY RAISING CASH FOR ROLL OVER OF SHORT TERM LOANS AND IS DELAYING PAYMENT, APPARENTLY FOR SHORT TIME, ON AT LEAST TWO LOANS. ALSO FACES DIFFICULTIES RAISING FUNDS TO COMPLETE STEEL, FERTILIZER AND REFINERY PROJECTS.

3. FOLLOWING ANALYSIS IS FOR INFORMATION OF DEPARTMENT AND POSTS. MATTER IS EXTREMELY SENSITIVE HERE AND WOULD CAUTION AGAINST DISCUSSIONS BY USG REPRESENTATIVES OF THIS SUBJECT OUTSIDE OF WASHINGTON AND JAKARTA.

4. PROBLEM STEMS FROM THESE FACTORS:

A. GENERAL IBNU, PRESIDENT DIRECTOR OF PERTAMINA WAS ASKED IN 1970-71 BY PRESIDENT SUHARTO TO UNDERTAKE SEVERAL MAJOR PROJECTS OUTSIDE OIL SECTOR ON ACCELERATED BASIS. IBNU FELT SEVERE PRESSURE ON HIM TO PRODUCE.

B. RULES RELATING IMF STANDBY AT THAT TIME LIMITED OPPORTUNITIES FOR FINANCING, MAKING NEEDS GOI ADDED FINANCING SUBJECT TO FINANCE MINISTRY APPROVAL. IBNU TOOK ADVANTAGE OF EXEMPTION FOR SHORT TERM COMMERCIAL CREDITS UNDER IMF RULES TO BORROW HEAVILY IN SHORT TERM MARKET FOR KRAKATAU AND OTHER PROJECTS.

C. CHANGES IN WORLDWIDE FINANCIAL PICTURE LEFT PERTAMINA SERIOUSLY SHORT IN FUNDS TO MEET OBLIGATIONS, ESTIMATED AT MORE THAN \$600 MILLION IN SIX MONTHS MONEY.

D. RAPID EXPANSION OF PERTAMINA RESPONSIBILITIES SEVERELY STRAINED MANAGEMENT AND OVERSIGHT CAPABILITIES. STRONGLY INDEPENDENT POSITION AND OFFSHORE BORROWING OPPORTUNITIES OF GENERAL IBNU LIMITED DEGREE OF GOVERNMENT CONTROL OVER FINANCIES.

E. GOVERNMENT RESTRAINT ON PERTAMINA ACTUALLY AUTHORIZED TO RETAIN ONLY SMALL PERCENTAGE OF OIL REVENUES FOR ITS OWN USE.

F. NEED TO CONSOLIDATE SEVEN DIFFERENT ACCOUNTING SYSTEMS FROM PREDECESSOR COMPANIES ALSO STRAINED PERTAMINA ACCOUNTING ABILITY AND ABILITY OF COMPANY TO ISSUE REALISTIC BALANCE FIGURES. RESULT HAS BEEN LACK OF CLEAR KNOWLEDGE OF EXACT FINANCIAL AND DEBT SITUATION AND LAGS IN ISSUANCE OF FINANCIAL STATEMENTS.

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5. THESE ACTIONS HAVE BEEN TAKEN OR ARE UNDER DISCUSSIONS:

A. WITH APPARENT TACIT APPROVAL OF GOVERNMENT, AT LEAST UP TO PRESENT, PERTAMINA HAS WITHHELD TOTAL OF ABOUT \$550 MILLION FROM TWO QUARTERLY PRODUCTION SHARING CONTRACT PAYMENTS DUE AND PAYABLE GOVERNMENT LAST OCTOBER AND JANUARY. SUHARTO REPORTEDLY HAS SAID THESE MUST ULTIMATELY BE PAID TO GOVERNMENT.

B. PRESIDENT SUHARTO HAS APPARENTLY AGREED TO LOWER PRIORITY FOR KRAKATAU PROJECT. MINISTERS WIDJOJO AND SUMARLIN AND TWO

EXPATRIATE EXPERTS REPORTEDLY HAVE BEEN ASKED URGENTLY TO CONSIDER HOW TO MINIMIZE JEOPARDY PROJECT CREATES FOR PERTAMINA AND GOVERNMENT FINANCING AND PROJECT GOALS. PRIME CONTRACTORS ARE TWO WEST GERMAN FIRMS: FERROSTAHL AND SIEMANS. PERTAMINA OFFICIAL JOHN NIZAR ESTIMATES 30 PERCENT OF CURRENT MONTHLY PAYMENT FLOWS OF ROUGHLY \$100 MILLION CAN BE POSTPONED.

C. PERTAMINA EXPLAINING SITUATION TO VISITING GROUP OF REPRESENTATIVES 28 US BANKS WHO BEGIN VISIT HERE FEB 24.

D. DISCUSSIONS PROCEEDING BETWEEN GOVERNMENT AND PERTAMINA, WITH MINISTER MINES SADLI AS PRIMARY LINK, ON HOW TO RESOLVE PROBLEM AND HOW TO EXERCISE GREATER FINANCIAL CONTROL. EFFORT IS BEING MADE TO CURTAIL NUMEROUS AND UN-COORDINATED FUND RAISERS AND TO CENTRALIZE BORROWING AUTHORITY IN ONE PLACE IN COMPANY.

E. PERTAMINA IS UTILIZING SERVICES OF US ACCOUNTING FIRM, ARTHUR YOUNG, AND INVESTMENT ADVISERS, LEHMAN BROTHERS. THEY ARE HELPING PREPARE BALANCE SHEETS FOR PRESENTATION TO US BANKERS.

F. IBNU IS OBTAINING OTHER FUNDS. AGREEMENT FOR PETROLEUM SALES CONCLUDED WITH PHILIPPINES FEBRUARY 20 REPORTEDLY INCLUDED SUBSTANTIAL ADVANCE PAYMENT, AND ONE NEW OFFSHORE BORROWING APPARENTLY WILL PERMIT SETTLEMENT OF CURRENTLY DUE SHORT TERM CREDITS.

6. COMMENT: OUR BEST JUDGEMENT IS THAT PROBLEM IS NOW CLEARLY RECOGNIZED BY BOTH GOVERNMENT AND PERTAMINA. IF KRAKATAU PROJECT CAN BE SLOWED DOWN AND FINANCING TERMS LENGTHENED, REDUCTION OF THE FUNDING BURDEN TOGETHER WITH CURRENT INCOME WOULD ENABLE PERTAMINA TO MEET CURRENT OBLIGATIONS AND CLEAR WAY FOR IT TO BORROW FOR IMPENDING PRIORITY PROJECTS, INCLUDING CILACAP REFINERY OVERRUN, PLAJU AROMATICS PLANT, AND INFRASTRUCTURE FOR JATEBARANG AND EAST KALIMANTAN FERTILIZER PLANTS. UNCERTAINTIES STILL REMAIN, SUCH AS POSSIBLE LONGER TERM EFFECT OF OIL GLUT AND RECENT CHINESE-JAPANESE OIL DEAL. IT IS NOT YET CONFIDENTIAL

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CLEAR, EITHER HOW SUCCESSFUL GOVERNMENT WILL BE ESTABLISHING SATISFACTORY CONTROL OVER PERTAMINA'S FINANCING. MOST ENCOURAGING ELEMENT, HOWEVER, IS RECOGNITION BY BOTH COMPANY AND ECONOMIC MINISTERS THAT HARD DECISIONS MUST BE MADE AND MADE JOINTLY BY BOTH GROUPS, PLUS RECOGNITION BY BOTH GROUPS OF NEED FOR OUTSIDE PROFESSIONAL ADVICE.
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